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Publication date:
2009

No. 2009–65

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August 2009

ISSN 0924-7815

Shareholder Activism through the Proxy Process

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Abstract – This paper provides evidence on the corporate governance role of shareholder-initiated proxy proposals. Previous studies debate over whether activists use proxy proposals to discipline firms or to simply advance their self-serving agendas, and whether proxy proposals are effective at all in addressing governance concerns. Using the largest sample yet examined as well as extensive controls for governance quality, we find that activists use the proxy process as a disciplinary mechanism, and as such are valuable monitoring agents. Moreover, proposal announcements in the proxy statements have positive stock price effects, and both the market and the voting shareholders respond as much to the target firm's governance quality as to the proposal's objective and sponsoring shareholder. We address the endogeneity of target selection and proposal success using sample selection models. We conclude that shareholder proposals have nontrivial control benefits, countering arguments that they should be restricted by the SEC.

Keywords: Shareholder activism, shareholder proposals, corporate governance, sample selection.

JEL Classification: G34.

We are grateful for valuable suggestions from Jonathan Batten, Fabio Braggion, Brian Cheffins, Hans Degryse, Diane Del Guercio, Stuart Gillan, Jeffrey Gordon, Jennifer Hill, Ronald Masulis, Colin Mayer, Joe McCahery, Marco Pagano, Maria Fabiana Penas, Andrew Prevost, Randall Thomas, Paolo Volpin, and seminar participants at the University of Cambridge, Tilburg University, the 2008 ECGI/Review of Finance/SNS Corporate Governance Best Paper Competition Conference in Oxford, the 2008 Amsterdam/Cagliari/Vanderbilt Conference on Shareholder Rights, Shareholder Voting and Corporate Performance in Cagliari, the 2008 Financial Management Association Meeting in Dallas, and the 2009 China International Conference in Finance in Guangzhou. Luc Renneboog is grateful for funding from the Netherlands Organization for Scientific Research under the 'Shifts in Governance' programme, and from the European Commission via the 'New Modes of Governance'-project (NEWGOV) led by the European University Institute in Florence; contract no. CIT1-CT-2004-506392. Peter Szilagyi is grateful for funding from the European Commission through the European Corporate Governance Training Network; contract no. MRTM-CT-2004-504799. Renneboog: +31 (0) 13 466 8210, luc.renneboog@uvt.nl; Szilagyi: +44 (0) 1223 764026, p.szilagyi@jbs.cam.ac.uk.

1. Introduction

Shareholder activism through the proxy process has been subject to intense academic debate in recent years. Bebchuk (2005) is a strong advocate of shareholder participation in corporate governance, and argues that shareholder-initiated proxy proposals are a useful and relevant means of countering managerial agency problems. This assertion is supported by Harris and Raviv's (2008) recent theoretical model, which shows that in firms where agency concerns are exacerbated, it is optimal that shareholders seek control over corporate decisions. Other studies are nonetheless very vocal in questioning the actual control benefits of shareholder proposals. Prevost and Rao (2000) suggest that they are often preceded by failed behind-the-scenes negotiations with management, and may exert no discipline anyhow due to their nonbinding nature. Legal scholars argue that the proposal sponsors themselves are likely to pursue their self-serving agendas or be simply too uninformed to make effective governance decisions, with Bainbridge (2006) going as far as inferring that proposal submissions should be restricted by the SEC.

The empirical literature, summarized by Black (1998), Karpoff (2001), and Gillan and Starks (2007), is indeed inconclusive about whether shareholder proposals play a meaningful role in corporate governance. Recent research shows that the negative publicity and other reputational penalties indeed wield pressure on the target firms, because proposals that win a majority vote are likely to be implemented (Thomas and Cotter, 2007; Ertimur, Ferri, and Stubben, 2008). However, it remains unclear whether the proponent shareholders have the "correct" objective of disciplining management, or otherwise use the proxy process effectively. On one hand, the target firms tend to be poorly performing, but there is no evidence that they have poor governance structures such as heavily entrenched managers (Akyol and Carroll, 2006) or ineffective boards (Choi, 2001). On the other, there is no indication that proposal submissions have positive valuation effects, with some papers reporting outright negative stock price reactions to the takeover-related proposals that typically attract the most voting support (Bizjak and Marquette, 1998; Del Guercio and Hawkins, 1999).

This paper offers new evidence on the corporate governance role of shareholder proposals by simultaneously investigating (i) the selection of target firms, (ii) the stock price effects of proposal announcements, and (iii) the subsequent voting outcomes. Using 2,800 proposals submitted between 1996 and 2005, a sample of 2,000 target and nontarget firms, as well as

extensive controls for governance quality, we make several contributions to the literature. First, we show that shareholder proposals tend to be carefully targeted at firms that both underperform and have generally poor governance structures. We find that regardless of their objective, proposals are more likely to be submitted against firms that (i) use antitakeover provisions to entrench management, (ii) have ineffective boards, and (iii) have ill-incentivized CEOs. The probability of proposal submissions also decreases in leverage, which Jensen (1986) views as a remedy for free cash flow concerns. These results imply that activists use the proxy process as a disciplinary mechanism, and as such are valuable monitoring agents.

Second, we find that proposal announcements in the proxy statements are actually met with significantly positive stock price reactions. While the voting outcomes improve persistently over time, the abnormal stock returns are highest during stock market runups and heightened takeover activity. Nonetheless, the two measures of proposal success coincide in two key aspects. On one hand, they are sensitive to the proposal's objective and sponsoring shareholder, and are highest for proposals that are takeover-related or sponsored by public pension funds. On the other, they strongly depend on the target firm's governance quality, and especially its use of antitakeover devices, despite the careful target selection process. These findings show that shareholder proposals are attributed nontrivial control benefits by both the market and the voting shareholders, especially as an alternative agency mechanism when the market for corporate control can no longer exert discipline.

And third, this is the first study in the literature to analyze target selection and proposal success using sample selection models. Previous studies perform separate regressions to determine why firms get targeted with proxy proposals, and what drives proposal success in terms of the voting results and stock price effects. However, activists should consider the potential outcome before deciding whether or not to submit proxy proposals, while the voting shareholders and the market may respond to the act of the submission beyond the objective of the proposal itself. The sample selection framework confirms that target selection and voting success are endogenous, with independent analysis of the latter producing somewhat biased parameter estimates.

The remainder of this paper is outlined as follows. Section 2 reviews the theoretical and empirical literature on the corporate governance role of shareholder proposals. Our sample is described in Section 3 with a detailed discussion of recent trends in shareholders' use of the

proxy process. The results of the sample selection models are presented in Section 4. Section 5 finally allows for some concluding remarks.

2. The literature on shareholder-initiated proxy proposals

2.1 Theoretical background

Gillan and Starks (2007) place shareholder activism on a continuum of responses that dissatisfied investors can give to corporate governance concerns. At one extreme of the continuum, shareholders can simply vote with their feet by selling their shares (Parrino, Sias, and Starks, 2003). At the other extreme is the market for corporate control, where investors initiate takeovers and buyouts to bring about fundamental corporate changes (Fama and Jensen, 1983). The role of shareholder activism arises when shareholders continue to hold their shares and seek to induce changes within the firm without a change in control. These investors may then press for corporate reforms by negotiating with management behind the scenes, or – especially when management is unresponsive – by submitting proxy proposals for shareholder vote.

While shareholder proposals are generally considered to be relatively weak as a disciplinary mechanism, it has been widely debated whether they have any control benefits at all. Bebchuk (2005) advocates shareholder participation in corporate governance, and attributes shareholder proposals a meaningful role in mitigating the agency problems associated with managerial decisions. This assertion is supported by Harris and Raviv's (2008) theoretical model. The model shows that in firms where managerial agency concerns are exacerbated, it is optimal that activist shareholders seek control over corporate decisions, whether or not they are at an informational disadvantage vis-à-vis management, or they are motivated by personal agendas rather than the maximization of firm value.

Other studies conversely argue that proposal submissions have little use as an agency control device, and may actually have negative implications from a corporate governance perspective. Prevost and Rao (2000) point out that many institutional activists first try to negotiate with management behind the scenes, and only submit proxy proposals as a last resort. In their interpretation, the market may respond negatively to proposal submissions, to the extent that they signal management's reluctance to negotiate even with significant shareholders who can build strong voting coalitions. The authors add that shareholder proposals may well be ineffective anyhow in disciplining management, because they are nonbinding under the SEC's Rule 14a-8.

The main argument offered against shareholder proposals, which Harris and Raviv (2008) seek to address, is that the proposal sponsors themselves may be beset with conflict of interest motivations, or be simply too uninformed to make effective decisions on corporate governance. Public pension funds are often praised for their advocacy of shareholder interests, but Woidtke (2002) argues that political and social influences may divert their focus from disciplining management and maximizing firm value. More explicit are Prevost, Rao, and Williams (2009) in pointing out that union pension funds may use the proxy process to achieve their self-serving agendas, pointing to their role in the collective bargaining process and their other political interests. In the legal literature, Lipton (2002), Bainbridge (2006) and Stout (2007) use similar lines of reasoning to challenge Bebchuk's (2005) advocacy of shareholder participation. Bainbridge (2006) goes as far as claiming that shareholders' use of the proxy process can outright damage the firm by disrupting the decision-making authority of the board of directors, and infers that the SEC should consider raising the hurdles for proposal submissions.

2.2 Empirical evidence

Whether shareholder proposals have meaningful control benefits is indeed unclear from the empirical literature, summarized by the surveys of Black (1998), Karpoff (2001), and Gillan and Starks (2007). Recent studies confirm that they do exert pressure on the target firms despite their nonbinding nature, because as much as 40% of the proposals that win a majority vote end up being implemented (Bizjak and Marquette, 1998; Martin and Thomas, 1999; Thomas and Cotter, 2007; Ertimur, Ferri, and Stubben, 2008). Targets that ignore the shareholder vote have been shown to draw negative press, receive downgrades by governance rating firms, or end up on CalPERS's "focus list" of poor financial and governance performers. Ertimur, Ferri, and Stubben (2008) also show that their directors become less likely to be reelected and more likely to lose other directorships, in many cases due to dissatisfied activists targeting director elections with "just vote no" campaigns (Del Guercio, Seery, and Woidtke, 2008).

Despite these key results, the literature remains inconclusive on whether the activists sponsoring proxy proposals actually have the "correct" incentive of disciplining management. Previous studies report that proposal sponsors are more likely to target large, poorly performing firms (Karpoff, Malatesta, and Walkling, 1996; Martin and Thomas, 1999). Smith (1996) finds that they also consider the voting shareholders, to the extent that targets tend to have high

institutional and low insider ownership. There is no evidence however that agency concerns in the target firms are otherwise exacerbated by poor governance structures. Choi (2001) and Akyol and Carroll (2006) examine whether the selection of target firms is affected by governance considerations, and respectively find that the targets have neither inefficient boards nor managers heavily entrenched by antitakeover provisions.

The literature also offers mixed results on whether the target firm's governance quality is observed by the voting shareholders. Ertimur, Ferri, and Stubben (2008) recently find that proposals are more likely to win majority support if the target management is entrenched. However, Gordon and Pound (1993) and Bizjak and Marquette (1998) detect no evidence that voting success is affected by the target's use of antitakeover devices or board effectiveness. Gillan and Starks (2007) argue that the voting results are mostly driven by the proposal's objective and the sponsoring shareholder, and have historically been strongest for proposals targeting antitakeover devices and sponsored by institutional investors. Cremers and Romano (2007) show that the identity of the voting shareholders is also relevant. On one hand, voting support increases in institutional ownership but decreases in ownership by managers, directors, and Employee Stock Ownership Plans (ESOP). On the other, ownership by insurance companies and banks' trust departments increases voting support to a lesser extent than that by other institutional investors. These institutions are notably absent from the activist arena as well, and Brickley, Lease and Smith (1988) and Pound (1988) regard them as being pressure-sensitive due to their existing or potential business relationships with the firms they invest in[1]. Pension funds, investment funds, and independent investment advisors are deemed to be pressure-insensitive in comparison, because they are less likely to have such business ties and thus should be more willing to challenge management over governance concerns[2].

Previous studies argue that the stock price effects of shareholder proposals should be examined around the dates the proxy statements are mailed, because the market should have

[1] That such conflicts of interest may affect the shareholder vote on proxy proposals has long been voiced by activist investors, and eventually prompted the SEC's mutual fund proxy vote disclosure rule in June 2003. Whether the rule has reduced conflicted voting remains debated. Cremers and Romano (2007) suggest that the extent of conflicted voting may actually have been exaggerated in the first place.

[2] Accordingly, greater ownership by pressure-insensitive investors has been associated with greater emphasis on pay for performance (Almazan, Hartzell, and Starks, 2005), better acquisition decisions (Chen, Harford, and Li, 2007), and better overall financial performance (Cornett, Marcus, Saunders, and Tehranian, 2007).

reasonable expectations on whether a proposal passes or later becomes implemented (Bhagat, 1983; Bhagat and Brickley, 1984), and there is otherwise no systematic market response to proxy releases that do not contain shareholder proposals (Brickley, 1986). Nonetheless, Gillan and Starks (2000) note that the stock price reactions to proposal announcements may not be significant because they are difficult to ascertain. First, the proxies often contain multiple proposals submitted by both shareholders and management, as well as disclose other important information. Second, information leakages may occur, for example when institutional proposal sponsors announce their projected targets for the impending proxy season.

Previous event studies indeed do little in the way of showing that the market recognizes shareholder proposals as a relevant control mechanism. Most papers find insignificant market reactions to proposal announcements (Karpoff, Malatesta, and Walkling, 1996; Smith, 1996; Wahal, 1996; Thomas and Cotter, 2007), while others report outright negative abnormal stock returns for proposals targeting poison pills (Bizjak and Marquette, 1998; Del Guercio and Hawkins, 1999; Prevost and Rao, 2000). Moreover, Gillan and Starks (2000) find some evidence for Prevost and Rao's (2000) signaling hypothesis. The authors compare submissions made by institutional activists and by individual investors who are less likely to first negotiate with management, and find that the abnormal returns in the former case are lower and mostly negative.

Other results nonetheless suggest that the market attributes at least some control benefits to the shareholder proposals that are the most likely to pass. The literature reports no evidence that the market responds better to submissions made against firms with poor governance structures. However, Gillan and Starks (2000) find that like the voting outcomes, the abnormal returns are higher for poorly performing targets with high institutional ownership. Borokhovich, Brunarski, Harman, and Parrino (2006) further analyze this latter result for takeover-related proposals, and find that the returns are only related positively to ownership by pressure-insensitive institutions. Finally, Prevost, Rao, and Williams (2009) examine union-sponsored proxy proposals, and find positive market reactions to those submitted against firms with one or more unions present.

3. Sample description

The shareholder proposals examined in this paper are all related to corporate governance and were submitted in the period between 1996 and 2005. Our data set contains 2,792 proposals

submitted at 646 firms with single class common stock[3]. Of these, 2,651 were taken from the RiskMetrics' (formerly IRRC) database of proxy voting, which tracks over 1,900 firms including the Standard & Poor's 1500. The remaining proposals were obtained from the proxy firm Georgeson Shareholder Communications, or hand-collected from the proxy statements of the firms tracked by RiskMetrics.

We used the proxy statements, available through the SEC's EDGAR database, to collect missing data and correct any errors in the RiskMetrics data set. For about half of the proposals RiskMetrics did not report the detailed three-way voting outcomes, and there were a number of inconsistencies in the treatment of broker nonvotes. In some cases, the proposal type and the identity of the proposal sponsor were missing or classified incorrectly. As the proxy mailing dates were not included in the RiskMetrics database, these were also collected from EDGAR.

3.1 Proposal sponsors

Table 1 stratifies the sample proposals by the year of submission and the identity of the proposal sponsor. The sponsors are classified into six mutually exclusive categories: (i) union pension funds, (ii) public pension funds, (iii) investment funds, (iv) coordinated investor groups, (v) socially responsible and religious investors, and (vi) individual investors.

(Insert Table 1 about here)

Table 1 shows that institutional activism through the proxy process has come to be heavily dominated by union pension funds. Gillan and Starts (2000) report 119 union-sponsored proposals for the entire period between 1987 and 1994. In contrast, there were 926 submissions made during our sample period, and as many as 559 between 2003 and 2005. That union pension funds are also very innovative in using the proxy process, as well as the media, in targeting management is discussed by Schwab and Thomas (1998) and Prevost, Rao, and Williams (2009).

Public pension funds and investment funds submitted 136 and 62 proposals, respectively, between 1996 and 2005. Public pension funds were the most prolific institutional proposal sponsors until the early 1990s, when they began focusing on behind-the-scenes negotiations with

[3] Dual class firms were omitted because their governance structures are difficult to compare with those of single class firms due to extensive voting and ownership differences. We omitted a total of 269 proposals submitted at 65 dual class firms, representing about 9% of the initial sample.

management and targeting firms through the media (Carleton, Nelson, and Weisbach, 1998; English, Smythe, and McNeil, 2004; Wu, 2004; Nelson, 2006)[4]. Hedge funds and other investment funds have historically been better known to rely on controversial activist strategies, whereby they take large positions in underperforming firms and target management directly as per the agendas presented in their purpose statements (Brav, Jiang, Partnoy, and Thomas, 2008; Bradley, Brav, Goldstein, and Jiang, 2009; Greenwood and Schor, 2009; Klein and Zur, 2009)[5]. Coordinated investor groups such as the now-defunct Investor Rights Association of America (IRAA) sponsored 197 proposals[6], while socially responsible and religious investors made 121 submissions targeting corporate governance issues.

The remaining 1350 proxy proposals were submitted by individual investors, who dominated the proxy process almost entirely until the emergence of institutional activists in the mid-1980s. The most prominent proposal sponsors, often referred to as "gadfly" investors, have been active for many years, and include Evelyn Y. Davis and the Chevedden, Rossi and Gilbert families, who submitted a total of 681 proposals over the sample period.

3.2 Issues addressed

Table 2 groups the sample proposals by the year of submission and the issue addressed. The issues are categorized by whether the proposal concerns (i) antitakeover devices, (ii) the board of directors, (ii) voting rules, (iv) executive compensation, (v) the sale of the target firm (vi) audit services, (vii) routine issues related to the annual meeting, or (viii) other miscellaneous issues.

(Insert Table 2 about here)

The table shows that, as has been the case historically, antitakeover devices were the most frequent targets of the sample proposals. A total of 981 proposals were takeover-related, directed

[4] Public pension funds began having more direct dialogue with management after the SEC passed new rules allowing shareholders to directly communicate with each other in 1992. This reduced the cost of creating shareholder coalitions and made the sponsoring of proxy proposals comparatively more expensive.

[5] Becht, Franks, Mayer, and Rossi (2009) are the first to provide non-US evidence on hedge fund activism, by examining the activities of the Hermes Focus Fund in the UK.

[6] The Investor Rights Association of America (IRAA) was a spin-off of the United Shareholders Association (USA), active until the early 1990s. The IRAA disbanded in 1998, but its founding members continued to make proposal submissions (Strickland, Wiles, and Zenner, 1996).

primarily at the removal of classified boards (440), poison pills (312), and golden parachutes (129). Activists targeted poison pills particularly intensely after 2000, coinciding with the stock market downturn and the exacerbation of corporate governance concerns as a result of the Enron and subsequent accounting scandals. The incidence of submissions on board and voting-related issues remained relatively stable over the sample period, with a total of 495 and 354 proposals, respectively. Nonetheless, the number of proposals calling for the independence of the board chairman and the election of board members by majority vote rose considerably in the 2000s.

Between 1996 and 2005, shareholders sponsored 608 proposals on managerial compensation, more than double the 247 reported for 1987-1994 by Gillian and Starks (2000). Two thirds of these proposals were submitted after 2002, reflecting exacerbated concerns over the size, performance sensitivity, and expensing of pay packages. The crisis of confidence triggered by the Enron scandal also prompted a surge in the number of proposals targeted at audit issues, with 64 of the 70 audit-related proposals submitted after 2001. Submissions seeking the sale of the target firm soared during the stock market runup of the late 1990s, but fell significantly thereafter.

Though not reported in Table 2, the surge in the number of takeover- and compensation-related proposal submissions was largely driven by union pension funds. Antitakeover devices and board-related issues were targeted by most institutional proposal sponsors. However, unions also engaged firms over managerial compensation, with strong emphasis on stock option expensing and the granting of performance-based options and restricted shares. Hedge funds and coordinated investors submitted most proposals calling for the sale of the target firm.

The proposals sponsored by individuals were by far the most diverse in terms of their policy objectives. Many activists tended to concentrate on a few select issues. For example, Evelyn Y. Davis sponsored 42 of the 45 proposals on compensation disclosure, 39 of the 47 proposals on director tenure, and 28 of the 35 routine proposals on the date and location of the annual meeting. Davis and the Gilbert brothers sponsored 161 of the 221 submissions on cumulative voting, while 151 of the 312 poison pill proposals were submitted by the Chevedden and Rossi families.

3.3 Voting outcomes

Table 3 summarizes the voting outcomes on the sample proposals by the issue addressed, the year of submission, and the identity of the proposal sponsor. The three-way voting results are

available for 2726 of the 2792 proposals; the remaining submissions also went to shareholder vote, but the results were not reported in detail by the target firms[7].

(Insert Table 3 about here)

Panel A of Table 3 shows that the voting support attracted by shareholder proposals increased significantly during the sample period. The percentage of votes cast in favor was 32.9% on average, rising from 28.7% in 1996 to 37.1% in 2005. An improvement in the voting outcomes was apparent after 2001, coinciding with the corporate scandals of the early 2000s, and the introduction of the SEC's mutual fund proxy vote disclosure rule in June 2003. Nonetheless, Gillan and Starks (2007) point out that the voting success of shareholder proposals has grown persistently since the mid-1980s, largely due to the ongoing rise of institutional equity ownership.

The panel shows that the proposals targeting antitakeover devices achieved by far the most voting support at an average 53.4% of the votes cast. In fact, nearly two thirds of these proposals passed the shareholder vote, and as many as 84% received majority support in 2005. The voting results were uniformly strong for each provision targeted. The exception were the mostly union-sponsored submissions calling for the target firm's reincorporation, typically in Delaware, with 16.9% of the votes cast in favor on average.

The proposals targeting voting rules and managerial compensation won an average 32.3% and 21.5% of the votes, respectively. Of the voting-related proposals, those seeking confidential voting received 45.5% of the votes and passed in a third of the cases. The most successful compensation-related proposals called for greater shareholder control over the approval of pay packages, or concerned the pay-performance sensitivity and accounting treatment of stock-based compensation. Standing out among these were the mostly union-sponsored proposals calling for the expensing of stock options, with won 49.0% of the votes and passed in half of the cases. The board-related proposals received 19.3% of the votes on average, and were most successful when seeking greater board independence. The proposals directed at audit and routine issues, as well as those seeking the sale of the target firm won modest voting support.

[7] Proposals are sometimes withdrawn because the sponsor has negotiated a satisfactory resolution, or the SEC has allowed the firm to exclude it from its ballot due to the improper subject matter or technical reasons. RiskMetrics does not include withdrawn proposals in its database.

Panel B of Table 3 shows how the identity of the proposal sponsor affected the voting outcomes. The takeover-related proposals performed well irrespective of the sponsoring shareholder. Otherwise, public pension funds and investment funds were the most successful in building voting support, with an average 43.0% and 41.0% of the votes, respectively. Union pension funds won an average 34.8% of the votes, which seems to reflect shareholder concerns over their political or social agendas. The percentage votes achieved by coordinated investor groups and socially responsible and religious investors were 28.6% and 23.7%, respectively. Finally, individual activists attracted an average 32.1% of votes cast, considerably more than the 18.7% reported for 1987-1994 by Gillan and Starks (2000). Indeed, several "gadfly" investors popular in the business media have recently done very well in gathering voting support, with the Chevedden and Rossi families achieving particularly strong outcomes.

3.4 Stock price effects

To measure the valuation effects of the sample proposals, we calculate cumulative abnormal returns (CARs) around the dates the proxy statements were mailed. The CARs are calculated using the market model methodology. The model parameters are estimated over the 200-day period ending 21 days before the proxy mailing dates, using the CRSP equal-weighted index. Of the 1756 initial proxy mailing dates, these parameters are available for 1739 events. The significance of the CARs is tested using Boehmer, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test and Cowan's (1992) nonparametric generalized sign test.

Table 4 reports the CARs across a number of event windows. Remarkably, we find that the proposals were met with significantly positive market reactions upon their disclosure in the proxy statements. The CARs are significant in each event window, with the mean and median [-1,+1] CAR at 0.25% and 0.02%, respectively. These results are fully robust to alternative specifications of the market model, implying that the market does attribute control benefits to proxy proposals[8].

[8] The CARs are fully robust to the use of postevent estimation periods in the market model. We estimated the model parameters over the 200-day period beginning 21 and 42 days after the proxy mailing date. In each case the [-1,+1] CARs had a mean of 0.27% and median of 0.07%, and the Z-test and the generalized sign test were significant at the 1% and 5% level, respectively. The results are similarly robust to the use of the CRSP value-weighted index and the Standard and Poor's 500 Index, with the mean [-1,+1] CAR at 0.26% and 0.23%, respectively. In line with Brickley (1986), we find no systematic stock price reactions to the proxy releases of nontarget firms.

That the CARs are modest in size is not surprising. On one hand, Gillan and Starks (2000) argue that proxy proposals induce smaller and more specific improvements in corporate governance than do alternative control mechanism such as takeovers. On the other, Section 2.2 discussed that we can only measure the stock price reactions to the proxies rather than the individual proposals, which should clearly lead to a downward bias in the size and significance of the results.

(Insert Table 4 about here)

Table 5 partitions the mean [-1,+1] CARs by the year of submission, the issue addressed, and the identity of the proposal sponsor. Panel A shows that corresponding to the voting outcomes, the proxies containing takeover-related proposals had by far the strongest stock price effects, at a mean and median of 0.44% and 0.13%, respectively. However, the CARs did not improve over time, but were most significant during the stock market runups and heightened takeover activity of 2000 and 2005. This implies that the control benefits of proxy proposals are most valuable when they help expose the target to an active market for corporate control. Shareholders may simply anticipate a higher premium paid in the event of a takeover bid (Cremers, Nair, and John, 2009). However, the greater takeover threat should also induce greater improvements in corporate governance, to the extent that it exacerbates pressure on the incumbent management.

(Insert Table 5 about here)

Panel B of Table 5 shows that of the sponsoring shareholders, public pension funds achieved by far the strongest stock price effects with their proposal submissions. The CARs for the proxies containing their proposals were significant both statistically and economically, with a mean and median at 1.08% and 0.53%, respectively. The union-sponsored proposals also induced small price gains of an average 0.16%. The stock price effects were insignificant for the other sponsor types, but the mean CAR was highest for hedge funds and other investment funds, at 0.53%. These findings are broadly in line with the superior voting outcomes achieved by institutional proposal sponsors. At the same time, they are clearly inconsistent with Prevost and Rao's (2000) hypothesis that the market responds less positively to institutional proposal submissions that are likely to signal failed behind-the-scenes negotiations with management.

4. Multivariate analysis of target selection and proposal success

To shed further light on the control benefits of shareholder-initiated proxy proposals, we now perform a multivariate analysis of (i) how the proposal sponsors select their targets, and (ii) what drives proposal success in terms of the voting results and stock price effects. To identify the firm characteristics that drive target selection and proposal success, we use a comprehensive set of accounting, market performance, ownership, and governance data collected from Compustat, CRSP, Thomson Financial CDA/Spectrum, RiskMetrics, and ExecuComp. The analysis of target selection includes the entire universe of firms tracked by these databases between 1996 and 2005. This encompasses coverage of 1,961 NYSE, AMEX, or NASDAQ-listed firms across 10,590 firm-years, of which 550 were targeted by proxy proposals across 1,494 firm-years.

4.1 Descriptive statistics on target versus nontarget firms

Table 6 compares the descriptive statistics on the target versus nontarget firms, with the variable descriptions provided in Appendix A. The difference-in-means t-tests assume unequal variances between the groups when the tests of equal variances are rejected at the 10% level. The significance of the differences in the medians is based on Wilcoxon ranksum tests.

(Insert Table 6 about here)

Panel A of Table 6 shows how the targets and nontargets compared in terms of their financial characteristics, market performance, and institutional ownership. Fama and French's (2001) agency proxies show mixed evidence that governance concerns in the targets were exacerbated. The targets tended to be larger than the nontargets, with assets of $46.5 billion versus $7.3 billion, respectively. However, there is no evidence that they had lower debt-to-equity or market-to-book ratios, which Fama and French (2001) regard as being inversely related to agency problems. The performance data confirm that the targets performed poorly in the year up to two months before the proxy mailing dates. Their stocks delivered an average raw return of 14.5%, and underperformed the CRSP equal-weighted index by 17.8%. The raw return on the nontarget

stocks was 20.6%, and these underperformed the CRSP index by only 11.2%[9]. Turnover was lower in the target stocks, which is surprising to the extent that shareholders are more likely to vote with their feet against these firms. Finally, the descriptive statistics provide no evidence that the targets had higher institutional ownership, with the mean equity share of institutional investors at 62.8% and 63.9%, respectively. Furthermore, the data show that pressure-insensitive investors were underrepresented, while pressure-sensitive investors were overrepresented in the targets, despite the latter being less likely to support shareholder-initiated proxy proposals.

Panel B of Table 6 compares the governance structures of the target and nontarget firms in terms of their use of antitakeover devices, board effectiveness, and CEO pay and ownership. Gompers, Ishii, and Metrick's (2003) Governance Index, which tracks 24 antitakeover provisions, confirms that the targets were better shielded from takeover threat than the nontargets, with an average 9.9 and 9.4 provisions in place, respectively. The statistics show no discernible difference based on Bebchuk, Cohen, and Ferrell's (2009) alternative Entrenchment Index. The targets and nontargets both employed an average 2.3 of what the authors regard as the six most important antitakeover devices: classified boards, poison pills, golden parachutes, limits to bylaw and charter amendments, and supermajority provisions for mergers[10].

We measure board effectiveness by (i) size, (ii) the proportion of executive directors, (iii) the average age of nonexecutive directors, and (iv) the independence of the board chairman. The data show mixed evidence on how the targets and nontargets compared in terms of board quality. The targets had 11.3 directors on average, considerably more than the 9.6 directors nontargets had and the optimal board size of six to eight directors (Jensen, 1993; Yermack, 1996). Furthermore, only 12% of the targets separated the posts of CEO and board chairman, compared with 21% of the nontargets. However, the target boards were more independent, with executives constituting 16.3% of the board in the targets and 20.4% in the nontargets. The nonexecutive directors of the targets were also older thus more experienced, with a mean age of 59.9 years versus 59.1 years.

Panel B of Table 6 finally considers two aspects of CEO wealth and compensation: (i) the CEO's equity ownership and pay-performance sensitivity, which are viewed as a remedy for

[9] While the literature customarily uses the CRSP equal-weighted index to price stock returns, this is a highly diversified index which encompasses even the smallest NYSE-, AMEX- and NASDAQ-traded stocks. This size effect explains why the large firms tracked by the various databases consistently underperform the index.

[10] The authors find that these six provisions are by far the most correlated with firm value and stock returns.

agency concerns (Jensen and Murphy, 1990), and (ii) the actual level of compensation, which may reflect agency problems of managerial rent-seeking (Bebchuk and Fried, 2003). The descriptives show that the CEOs had lower equity stakes in the targets than in the nontargets, at 1.2% versus 2.5%. However, CEO pay was more high-powered in the targets, with options and restricted shares comprising an average 45% and 42% of total pay, respectively. As the targets were large, prominent firms, it is unsurprising that they granted more cash compensation at an $8.7 million versus $4.1 million. However, they underpaid their CEOs relative to their size and industry peers, as indicated by Cremer and Romano's (2007) measure of abnormal compensation. The dollar sensitivity of the target CEOs' total option holdings was also lower, with the value of the options increasing by $6.56 versus $10.73 for every $1,000 increase in firm value.

4.2 Methodology

We perform the multivariate analysis of target selection and proposal success using Heckman's (1979) sample selection model, often referred to as a type-2 tobit model. Previous studies perform separate regressions to determine why firms get targeted with proxy proposals, and what drives proposal success in terms of the voting results and stock price effects. However, it is clear that the two are likely to be endogenous. On one hand, an activist is likely to consider the potential outcome before deciding whether or not to submit a proposal, given the nontrivial costs involved. On the other, the market and the voting shareholders may respond to the act of the submission beyond the objective of the proposal itself, to the extent that this reveals a negative signal of exacerbated governance concerns, or in fact a positive signal of close monitoring by the activist.

The sample selection model is specified as follows:

(1) $$y_{1it}^{*} = X_{1it}^{'}\beta_1 + \varepsilon_{1it} \ ,$$

$$y_{1it} = \begin{cases} 1 & if \ \ y_{1it}^{*} > 0 \\ 0 & if \ \ y_{1it}^{*} \le 0 \end{cases} ,$$

(2) $$y_{2it}^{*} = X_{2it}^{'}\beta_2 + \varepsilon_{2it} \ ,$$

$$y_{2it} = \begin{cases} y_{2it}^{*} & if \ \ y_{1it}^{*} > 0 \\ 0 & if \ \ y_{1it}^{*} \le 0 \end{cases} ,$$

where $\{\varepsilon_{1it}, \varepsilon_{2it}\}$ are drawn from a normal distribution with mean 0, variances σ_1^2 and σ_2^2, and correlation ρ_{12} (Amemiya, 1984). The variable y_{1it}^* is a dummy variable showing whether firm i is targeted in year t, while the variable y_{2it}^* is the outcome of interest i.e. (i) the voting outcome observed at the proposal level, or (ii) the CAR observed at the firm level around the proxy mailing date. It is assumed that only the sign of y_{1it}^* is observed, and that y_{2it}^* is observed only when $y_{1it}^* > 0$. The X variables correspond to the explanatory variables. X_{1it} and X_{2it} are not disjoint but do differ. X_{1it} is observed for all i, and includes firm-level variables as well as year and industry dummies. X_{2it} additionally includes proposal-related variables not observed when no proposal is submitted i.e. $y_{1it}^* \leq 0$. β_1 and β_2 are vectors of the model coefficients.

In a standard setting, the error terms are assumed to be i.i.d. drawings. We relax this assumption across t as well as allow the clustering of observations corresponding to a given firm i, i.e. we assume the error terms to be i.i.d. across firms but not necessarily for different observations within the same firm. This procedure enhances the robustness of our findings and allows us to take the panel data structure of our sample explicitly into account.

Throughout the paper we call Equation (1) the selection equation and Equation (2) the outcome equation. As has been discussed, estimating the outcome equation independently would not be a valid alternative, because the OLS estimator of β_2 is biased when the selection of the outcome sample is endogenous i.e. $\rho_{12} \neq 0$. The sample selection model addresses the endogeneity of selection, and thus renders reliable parameter estimates for the outcome equation.

4.3 Target selection

The sample selection models analyzing the voting outcomes and the stock price effects are depicted in Tables 7 and 8, respectively. The selection equations, shown in Panel A, are configured identically in the two tables. However, the voting outcomes are observed at the proposal rather than the firm level, thus the selection equations of Table 7 overweight the targets with multiple proposals in a given year[11]. As the CARs are observed at the firm level, the

[11] Firm-level specifications would yield unbiased results for the selection equations but lead to considerable loss of information on the individual proposals. For robustness, we performed the analysis at the firm level by excluding

corresponding selection equations are unbiased. Therefore, the remainder of this section discusses the selection equations shown in Panel A of Table 8.

(Insert Tables 7 and 8 about here)

The selection equations incorporate the firm characteristics discussed in Section 4.1 and described in Appendix A. Fama and French's (2001) agency argument dictates that the probability of a proposal submission is related positively to firm size, and negatively to the debt-to-equity and market-to-book ratios. However, market-to-book also serves as a proxy for informational asymmetries, thus the sign on this variable may be positive to the extent that activists use proxy proposals as a signaling device. Proposal probability should be related negatively to prior stock performance and positively to prior stock turnover. We control for ownership by both pressure-sensitive and pressure-insensitive institutional investors, but conjecture that proposal probability only increases in the latter.

We use Bebchuk, Cohen, and Ferrell's (2009) Entrenchment Index to account for the use of antitakeover devices, and expect the sign on the index to be positive in the regressions. Board quality is proxied by (i) size, (ii) the square of size, (iii) the proportion of executive directors, (iv) the age of nonexecutive directors, and (v) a dummy equal to one if the chairman is independent and zero otherwise. We expect the sign on size to be negative and on squared size to be positive, to the extent that boards should be neither too small nor too large. The sign should be positive on the proportion of executive directors, and negative on director age and chairman independence. The variables pertaining to CEO wealth and compensation are (i) ownership, (ii) stock-based to total pay; (iii) abnormal cash compensation relative to size and industry peers, and (iv) the dollar sensitivity of the CEO's total option holdings to firm value. The signs should be negative on variables (i) and (ii) due to the incentive effects of wealth-performance sensitivity, and positive on (iii) and (iv) to the extent that high CEO pay reflects managerial rent-seeking.

Panel A of Table 8 shows that the selection equations described above are very effective in explaining why firms get targeted with proxy proposals. We find that targets tend to be large, poorly performing firms with low leverage. Activists also observe the voting shareholders before deciding whether or not to sponsor proposals. In Model 5, proposal probability (i) increases by

firms targeted by multiple proposals in a given year, as well as by using the average voting outcomes. The results of the outcome equations were similar to those presented in Section 4.3, but the information loss was significant.

1% for every 1% stock held by pressure-insensitive institutions, but (ii) decreases by 1.8% for every 1% stock held by pressure-sensitive institutions. This latter result shows that activists perceive conflicted voting by pressure-sensitive investors to be a considerable threat.

The main contribution of the analysis is that regardless of their objective, proposals are more likely to be submitted against firms that (i) use antitakeover provisions to entrench management, (ii) have ineffective boards, and (iii) have ill-incentivized CEOs. The Entrenchment Index is significant at the 1% level, with proposal probability increasing by 24.8% in Model 5 for every antitakeover device the firm has in place. This result is fully robust to Gompers, Ishii, and Metrick's (2003) broader Governance Index. In terms of board quality, we find the expected nonlinear relation between target selection and board size, and that firms with older thus more experienced nonexecutive directors are less likely to be targeted. Finally, we confirm the relevance of CEO wealth and compensation. Consistent with their incentive effects, proposal probability decreases in both CEO ownership and the proportion of stock-based to total pay. We find no statistical evidence that proposal probability increases in the level of abnormal cash compensation. However, it increases in the dollar sensitivity of the CEO's total option holdings, which implies that activists associate excessive option grants with managerial rentseeking.

4.4 Voting outcomes

The outcome equations analyzing voting success are depicted in Panel B of Table 7 and summarized in Appendix B. The models incorporate the firm-level variables included in the selection equations. We expect that these variables affect proposal probability and voting success in a similar way, with the exception of firm size. While proposals tend to be directed at large firms, the dispersed ownership structures of very large targets should make voting coalitions difficult to build. Thus, we expect that voting success and the log of assets are negatively related.

In addition to the firm-level variables, the outcome equations include 14 variables capturing the proposal characteristics. *Times submitted* is the number of times a proposal has been submitted in consecutive years. Gillan and Starks (2000) find, and our univariate results confirm, that resubmissions of unimplemented proposals tend to improve the voting outcomes[12]. *Number*

[12] In our sample, first-time submissions received 30.4% of the votes on average, while fifth-time submissions received 48.6%. Gillan and Starks (2000) argue that some of this improvement is likely to be due to selection bias. On one hand, activists may only resubmit the proposals they expect to achieve better outcomes. On the other, the

of proposals in proxy indicates the number of proposals announced in the same proxy statement. While it is not immediate how this should affect voting success, we conjecture that the more proposals submitted, the greater the support from the voting shareholders due to the stronger signal conveyed over governance concerns. Finally, we use twelve dummy variables to control for the proposal objective and the sponsoring shareholder. All proposals are uniquely allocated to an issue and a sponsor type, such that the intercept represents proposals addressing miscellaneous issues and sponsored by individual investors. We expect that proposals that are takeover-related or sponsored by institutional investors attract the most voting support.

The model statistics in Table 7 confirm that target selection and voting success are endogenous, with ρ sensitive to the model specification but significant in all but one case. Results not reported here also show that independent analysis of the voting outcomes produces somewhat different parameter estimates and has lower explanatory power overall. This shows that sample selection models are the appropriate tool for the analysis of the voting results.

The outcome equations in Panel B of Table 7 confirm that the voting success of proxy proposals is largely driven by the proposal characteristics. In Model 5, the intercept shows that miscellaneous proposals sponsored by individuals receive 28.4% of the votes cast. In comparison, proposals directed at antitakeover devices win 39.0% more voting support, while those targeting voting issues achieve 20.0%, and board, compensation and audit-related proposals receive 8.0%, 6.6% and 4.6% more votes, respectively. Of the institutional proposal sponsors, investment funds and public pension funds collect 10.2% and 6.3% more votes than do individual activists, while union pension funds achieve 2.6% additional support. We find that each resubmission of the same proposal improves the voting outcome by 0.9%, and that each additional proposal included in the proxy statement contributes 0.4% more votes.

Despite the careful target selection process we documented earlier, the firm-level variables add significant explanatory power to the outcome equations as well. As predicted, voting success is related negatively to firm size. Interestingly, while target selection is largely driven by market

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SEC states that if a proposal has received less than a specified percentage of the votes, the target firm can refuse to take proposals of the same subject matter for three years. To avoid exclusion, a proposal must have received at least 3% of the votes on its first submission, 6% on the second, and 10% on the third. In 1997, the SEC proposed to increase these hurdles to 6%, 15%, and 30%, respectively, amid claims that firms were becoming inundated with shareholder proposals. However, these changes have yet to be implemented.

performance, the subsequent voting results are related to the prior stock turnover. The models show that voting success also depends on the identity of the voting shareholders. In Model 5, a 1% ownership by pressure-insensitive investors improves the voting outcome by 0.1%. The impact of ownership by pressure-sensitive investors is insignificantly negative.

Finally, the results confirm that the voting shareholders also observe the target firm's governance quality. Irrespective of the objective of the proposal, voting success increases in the Entrenchment Index by 0.9% for each antitakeover provision the target has in place. As before, this result is fully robust to the broader Governance Index. The voting outcomes also show the expected nonlinear relation with board size.

4.5 Stock price effects

The outcome equations investigating the stock price effects are shown in Panel B of Table 8 and summarized in Appendix B. As before, we control for the firm characteristics included in the selection equations, and conjecture that these variables affect target selection and the CARs in the same way. The proposal characteristics are again proxied by a set of 14 variables. The dummies pertaining to the proposal objectives and the sponsoring shareholders are now equal to one if the proxy statement includes a corresponding proposal and zero otherwise. We expect that proposals that are takeover-related or sponsored by institutional investors generate stronger stock price effects. The CARs should be related positively to the *Number of proposals in proxy* variable, to the extent that multiple submissions exert greater discipline as well as achieve better voting results. The proposal-level *Times submitted* variable is replaced by the firm-level *Targeted in previous year* dummy. We conjecture that this variable is related negatively to the CARs, because while consecutive submissions draw more voting support, their marginal information content is lower, and they may be viewed as a follow-up attempt at disciplinary action that is likely to fail.

The Table 8 statistics show that the models have strong explanatory power, even though we can only measure the market response to the proxy statements rather than the individual proposals. The results show limited evidence that the stock price effects are endogenous to target selection, with ρ significant in just two of the five models. Nonetheless, independent regressions of the CARs are again less powerful and produce slightly different parameter estimates.

Remarkably, the outcome equations in Panel B show that the CARs are better explained by the firm characteristics than the features of the proposals announced. Nonetheless, we confirm the

univariate findings of Table 4 that the most positive stock price effects are induced by proposals that are takeover-related or sponsored by public pension funds. In Model 5, the CARs generated by takeover-related proposals are 0.57% higher than those pertaining to the miscellaneous proposals represented by the intercept. At the same time, the CARs are higher by as much as 1.09% if the proposal sponsor is a public pension fund rather than an individual. The regressions show only marginal evidence that the CARs are lower if the firm has previously been targeted. However, the CARs are related negatively rather than positively to the number of proposals included in the proxy. This may be because multiple submissions achieve only marginally better voting results, and may convey a particularly strong negative signal of governance concerns.

Of the firm characteristics, the size of the target shows a strong positive relation with the stock price effects, which confirms that the perceived control benefits of proxy proposals are greatest in large, prominent firms. The results also confirm that the CARs decrease in the market performance of the target's stock and increase in its turnover. In the sample selection framework there is no evidence that the market observes the voting shareholders, despite the findings to the contrary of Gillan and Starks (2000) and Borokhovich, Brunarski, Harman, and Parrino (2006).

The model statistics reveal that the stock price effects are most fundamentally driven by the target's governance quality, even as the proposal sponsors tend to target firms with generally poor governance structures. The CARs are most sensitive to the target's use of antitakeover devices. The Entrenchment Index is significant at the 1% level across all specifications, with Model 5 showing that irrespective of the proposal objective, the CARs increase by 0.24% for every antitakeover provision the target has in place. There is also evidence that the CARs decrease in the proportion of stock-based pay in CEO compensation, in line with the perceived incentive implications of pay-performance sensitivity.

Overall, these results confirm that shareholder-initiated proxy proposals have a more meaningful role in corporate governance than has been previously assumed in the literature. On one hand, there is evidence that the sponsoring shareholders are valuable monitoring agents, to the extent that they target underperforming firms with poor governance. On the other, proposal submissions are clearly attributed nontrivial control benefits by both the market and the voting shareholders, especially when the disciplinary effect of the market for corporate control is effectively blocked.

5. Conclusion

This paper has contributed to the academic debate on whether shareholder-initiated proxy proposals are a useful and relevant agency control device. Previous research has shown that proposals winning a majority vote are likely to be implemented, because the target firm and its board of directors risk suffering reputational penalties otherwise. However, it has been heavily debated whether activists use proxy proposals to discipline firms or to simply advance their self-serving agendas, and whether proposal submissions are effective at all in addressing corporate governance concerns.

Using the largest sample yet examined as well as extensive controls for governance quality, we have made important contributions to the literature. We have shown that claims of agenda-seeking by the proposal sponsors are likely to be exaggerated, because they tend to target firms that underperform, are underlevered, and have generally poor governance structures. Moreover, proposal announcements in the proxy statements have positive stock price effects, and both the market and the voting shareholders respond as much to the target firm's governance quality as to the proposal's objective and sponsoring shareholder. Finally, we have addressed the endogeneity of target selection and proposal success for the first time, using Heckman (1979) sample selection models.

Overall, we conclude that shareholder proposals should be regarded as a useful governance mechanism and the proposal sponsors as valuable monitoring agents, especially when the market for corporate control can no longer exert discipline. Our empirical results complement Harris and Raviv's (2008) recent theoretical finding that in firms where agency concerns are exacerbated, it is optimal that shareholders exercise control over corporate decisions. At the same time, they lend support to Bebchuk's (2005) advocacy of shareholder participation, against the argument of Bainbridge (2006) and other legal scholars that shareholder proposals disrupt the decision-making authority of the board of directors and should be restricted by the SEC. Whether and how this translates into long-term improvements in operating and market performance is left for future research.

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Table 1: Shareholder proposals by sponsor type and year of submission

Year	N	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Union pension funds	926	49	36	44	55	42	60	81	215	178	166
UBCJA	159	8	2	3	-	1	2	13	36	44	50
Teamsters	120	12	12	9	7	6	27	14	18	6	9
Longview	91	7	5	5	6	11	10	11	16	10	10
Sheet Metal Workers	74	-	-	-	-	1	-	2	23	21	27
Plumbers and Pipefitters	70	-	-	-	6	-	1	7	25	24	7
AFL-CIO	67	-	-	1	4	3	3	3	18	15	20
IBEW	67	1	3	3	7	4	6	8	20	8	7
Laborers	65	4	-	2	4	-	3	10	20	14	8
AFSCME	51	-	-	-	-	5	5	5	13	13	10
Public pension funds	136	13	8	18	15	12	10	21	12	11	16
New York City	84	10	6	10	8	7	7	11	7	7	11
CalPERS	19	-	1	4	2	3	2	2	-	2	3
TIAA-CREF	16	1	1	2	3	2	1	3	2	1	-
Connecticut	10	-	-	-	-	-	-	4	3	1	2
Investment funds	62	2	5	3	7	16	6	4	5	7	7
GAMCO Investors	17	-	-	1	-	2	2	3	4	3	2
Jewelcor Management	9	-	-	-	2	5	2	-	-	-	-
Greenway Partners	6	1	3	1	-	-	1	-	-	-	-
Coordinated investors	197	48	35	24	16	16	18	7	2	9	22
IRAA	174	47	34	22	14	14	14	2	-	7	20
BellTel Retirees	20	-	-	2	2	2	4	5	2	2	1
Socially responsible/religious investors	121	5	11	8	16	15	7	7	17	10	25
ICCR	61	5	11	7	8	8	2	1	3	6	10
Catholic Funds	13	-	-	-	-	-	-	-	2	-	11
UFE/Responsible Wealth	13	-	-	-	8	-	1	2	2	-	-
Individuals	1350	88	130	121	132	116	124	140	194	177	128
Evelyn Y. Davis	301	21	35	38	32	29	33	29	32	28	24
Chevedden family	150	2	4	7	11	13	16	17	30	27	23
Rossi family	134	3	3	3	4	4	6	27	44	28	12
Gilbert family	96	22	23	24	11	6	5	5	-	-	-
Gerald R. Armstrong	44	1	4	5	5	4	4	3	7	5	6
Morse family	34	6	3	-	5	4	1	3	-	12	-
Prominent individuals	20	-	-	-	-	1	3	2	8	2	4
Total proposals	2792	205	225	218	241	217	225	260	445	392	364

Abbreviations: UBCJA – United Brotherhood of Carpenters and Joiners of America; AFL-CIO – American Federation of Labor and Congress of Industrial Organizations; IBEW – International Brotherhood of Electrical Workers; AFSCME – American Federation of State, County and Municipal Employees; CalPERS – California Public Employees' Retirement System; TIAA-CREF – Teachers Insurance and Annuity Association - College Retirement Equities Fund; IRAA – Investor Rights Association of America; ICCR – Interfaith Center on Corporate Responsibility; UFE – United for a Fair Economy.

Table 2: Shareholder proposals by issue addressed and year of submission

Year	N	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Antitakeover issues	981	83	59	66	96	89	91	119	159	120	99
Repeal classified board	440	55	35	44	57	48	43	40	46	34	38
Redeem or vote on poison pill	312	13	18	12	24	25	20	48	82	49	21
Remove golden parachutes	129	11	4	4	9	6	12	18	17	26	22
Eliminate/reduce supermajority provision	66	1	-	2	3	7	12	10	9	7	15
Restore right to special meeting/written consent	9	-	-	3	1	1	1	-	2	-	1
Reincorporate in a different state	10	1	1	-	1	-	-	2	2	3	-
Remove all antitakeover provisions	6	-	-	-	1	2	3	-	-	-	-
Prohibit targeted share placement	4	1	1	1	-	-	-	-	-	-	1
Opt out of state takeover statute	3	-	-	-	-	-	-	1	1	1	-
Adopt antigreenmail provision	1	-	-	-	-	-	-	-	-	-	1
Repeal fair price provision	1	1	-	-	-	-	-	-	-	-	-
Board issues	495	56	58	43	43	38	44	47	62	59	45
Independent board chairman	102	1	3	6	3	2	4	2	27	31	23
Increase board independence	73	4	9	7	11	8	5	11	6	9	3
Increase key committee independence	52	5	5	7	4	4	6	13	3	2	3
Independent lead director	6	-	1	1	2	1	-	-	-	1	-
Director tenure/retirement age	47	3	7	5	4	3	5	5	6	6	3
Limit number of directorships	8	2	-	-	1	2	-	-	-	1	2
Director liability	5	2	1	-	-	-	-	-	-	-	2
Double board nominees	46	-	-	-	2	5	16	8	10	4	1
Equal access to the proxy	7	-	1	1	-	1	1	-	-	1	2
Eliminate advance notice requirement	2	-	-	-	-	-	-	1	1	-	-
Create key committee	11	2	1	4	2	-	-	1	-	1	-
Board inclusiveness	44	4	5	4	6	5	5	4	6	2	3
Board size	2	-	-	-	-	-	1	-	1	-	-
Board attendance	2	1	1	-	-	-	-	-	-	-	-
Union/employee representation	8	1	2	1	3	-	-	1	-	-	-
Director ownership	10	2	4	-	1	3	-	-	-	-	-
Pay directors in stock	31	11	11	3	-	2	1	1	-	-	2
Restrict director compensation	11	2	2	1	2	-	-	-	2	1	1
Restrict director pensions	28	16	5	3	2	2	-	-	-	-	-
Voting issues	354	31	38	46	36	27	25	25	17	32	77
Adopt cumulative voting	221	21	31	37	26	20	17	17	17	19	16
Adopt majority vote to elect directors	69	-	1	-	-	-	-	-	-	11	57
Adopt confidential voting	45	8	3	6	5	5	7	5	-	1	3
Allow vote against directors	5	-	-	1	1	-	-	3	-	-	-
No discretionary voting	9	2	3	-	4	-	-	-	-	-	-
Counting shareholder votes	7	-	-	2	-	2	1	-	-	1	1
Executive compensation issues	608	22	33	26	39	22	29	26	170	137	104
Implement compensation plan	27	-	-	-	-	-	-	-	-	25	2
Approval of deferred compensation plan	15	-	-	-	-	-	-	-	5	7	3
Approve compensation	7	1	1	1	-	-	-	1	2	-	1
Restrict compensation	78	4	6	7	13	4	1	2	7	6	28
Abolish/suspend stock options/stock grants	64	6	4	-	7	5	3	4	10	18	7
Performance-based stock options/stock grants	96	1	-	-	4	1	8	4	56	3	19
Performance/time-based restricted shares	44	-	-	-	-	-	-	-	-	25	19
Link pay to performance	29	3	4	4	2	1	6	1	2	4	2
Link pay to dividends	11	2	5	2	2	-	-	-	-	-	-
Link pay to social criteria	17	-	1	-	2	3	4	4	1	1	1
Disclose compensation	45	5	8	9	6	4	2	2	3	3	3
Review/report on executive compensation	24	-	4	1	1	2	2	-	10	1	3
Expense stock options	115	-	-	-	-	-	-	2	68	34	11
Require option shares to be held	16	-	-	-	-	1	-	-	2	9	4
No repricing of underwater stock options	7	-	-	2	2	1	1	1	-	-	-
Pension fund surplus	13	-	-	-	-	-	2	5	4	1	1
Study sale of company	116	5	17	19	17	26	18	1	2	5	6
Audit issues	70	1	1	1	1	1	1	25	16	16	7
Routine issues	35	2	6	10	3		6	3	2	2	-
Other	139	8	13	8	6	13	11	15	17	22	26
Total proposals	2792	205	225	218	241	217	225	260	445	392	364

Table 3: Percentage of votes FOR shareholder proposals by issue addressed, year of submission, and sponsor type

	Antitakeover issues		Board issues		Voting issues		Executive compensation issues		Study sale of company		Audit issues		Routine issues		Other		Total	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Total	53.4	(969)	19.3	(484)	32.3	(341)	21.5	(591)	14.2	(112)	21.7	(69)	5.4	(32)	13.2	(128)	32.9	(2726)
Panel A: Issue addressed and year of submission																		
1996	42.4	(81)	20.2	(53)	24.8	(29)	12.0	(20)	14.2	(5)	10.8	(1)	5.2	(2)	14.2	(5)	28.7	(196)
1997	45.5	(59)	13.6	(57)	25.9	(35)	10.8	(33)	19.2	(17)	3.8	(1)	6.0	(5)	8.4	(13)	23.6	(220)
1998	47.2	(66)	19.1	(42)	28.9	(43)	9.1	(23)	10.3	(19)	18.6	(1)	5.2	(10)	8.8	(7)	27.0	(211)
1999	48.0	(93)	20.2	(42)	27.9	(34)	10.8	(37)	12.5	(17)	23.3	(1)	3.8	(3)	5.9	(6)	29.8	(233)
2000	51.2	(88)	20.9	(37)	31.7	(26)	10.6	(21)	18.6	(24)	20.9	(1)	4.2	(1)	9.7	(12)	32.9	(210)
2001	50.6	(91)	13.8	(44)	34.8	(24)	15.3	(29)	11.8	(17)	29.5	(1)	4.9	(5)	18.4	(11)	31.3	(222)
2002	54.9	(118)	18.6	(47)	35.5	(24)	18.4	(25)	13.8	(1)	25.4	(24)	4.8	(3)	11.4	(14)	36.9	(256)
2003	59.8	(155)	21.2	(58)	33.1	(17)	28.7	(162)	3.2	(2)	14.4	(16)	3.8	(1)	18.3	(17)	38.0	(428)
2004	60.0	(120)	23.1	(59)	26.3	(32)	23.8	(137)	20.4	(5)	24.2	(16)	11.4	(2)	14.1	(21)	34.4	(392)
2005	61.2	(98)	22.6	(45)	42.7	(77)	29.9	(104)	2.5	(5)	23.1	(7)			14.7	(22)	37.1	(358)
Panel B: Issue addressed and sponsor type																		
Union pension funds	51.6	(286)	21.7	(141)	38.0	(93)	28.7	(309)	12.3	(1)	22.6	(57)			12.3	(27)	34.8	(914)
Public pension funds	57.6	(63)	31.1	(38)	33.1	(10)	32.6	(12)							19.7	(10)	43.0	(133)
Investment funds	54.7	(26)	24.9	(5)	25.3	(1)	5.5	(2)	29.1	(18)					46.8	(4)	41.0	(56)
Coordinated investors	48.5	(79)	20.8	(39)			12.6	(20)	11.7	(56)							28.6	(194)
Socially responsible/religious investors	72.0	(5)	25.7	(10)	43.5	(2)	9.0	(16)							8.9	(2)	23.7	(35)
Individuals	54.3	(505)	14.6	(208)	30.0	(235)	13.9	(200)	10.7	(37)	19.1	(10)	5.4	(32)	11.5	(81)	32.1	(1308)

Table 4: Cumulative abnormal returns around proxy mailing dates

Event window	N	Mean	Median	Positive: negative	Z test	Sign test
[-1,+1]	1739	0.25	0.02	877:862	2.59***	1.65*
[-1,0]	1739	0.16	0.00	868:871	1.66*	1.20
[0,+1]	1739	0.16	0.06	883:856	2.47**	1.92*
[-2,+2]	1739	0.37	0.01	871:868	2.39**	1.34
[-1,+5]	1739	0.39	0.07	880:859	1.71*	1.77*
[-1,+7]	1739	0.48	0.07	880:859	1.92*	1.77*

This table shows percent cumulative abnormal returns surrounding the date that the proxy statements are mailed. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The significance of the means and medians is tested using Boehmer, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test and Cowan's (1992) generalized sign test, respectively. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

Table 5: Cumulative abnormal returns by issue addressed, year of submission, and sponsor type

	Antitakeover issues		Board issues		Voting issues		Executive compensation issues		Study sale of company		Audit issues		Routine issues		Other		Total	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Total	0.44***	(805)	0.30	(414)	-0.03	(322)	0.02	(493)	0.59	(115)	-0.06	(68)	0.16	(35)	-0.35	(51)	0.25***	(1739)
Panel A: Issue addressed and year of submission																		
1996	0.12	(69)	-0.19	(48)	0.23	(29)	-0.33	(19)	3.54	(5)	-2.04	(1)	0.25	(2)	-0.19	(5)	-0.28	(130)
1997	0.12	(50)	-0.06	(48)	-0.91**	(37)	0.06	(30)	-0.52	(17)	-2.34	(1)	0.30	(6)	-0.20	(13)	0.08	(142)
1998	0.44	(60)	-0.11	(36)	-0.54	(44)	-0.38	(21)	-0.32	(18)	1.12	(1)	-0.19	(10)	1.55	(7)	0.13	(150)
1999	0.76	(82)	0.23	(39)	0.28	(31)	1.18	(37)	2.10	(17)	-1.55	(1)	-0.52	(3)	-0.74	(6)	0.45	(162)
2000	1.69***	(76)	3.28***	(31)	0.78	(22)	1.38	(20)	0.92	(26)	1.60	(1)	0.50	(1)	2.40	(13)	2.00***	(150)
2001	0.64	(69)	-0.68	(38)	-0.19	(20)	-0.09	(26)	-0.28	(18)	-0.14	(1)	0.28	(6)	-1.48	(9)	0.07	(151)
2002	0.07	(91)	0.94	(36)	-1.16	(24)	-0.87	(25)	-1.53	(1)	0.62	(24)	1.31	(3)	-0.17	(13)	0.05	(163)
2003	-0.02	(132)	-0.10	(53)	-0.31	(16)	-0.89**	(126)	-0.34	(2)	-0.64	(15)	2.67	(2)	-0.80	(14)	-0.40*	(246)
2004	0.24	(95)	0.68	(47)	-0.05	(29)	0.55**	(112)	1.25	(5)	-0.34	(16)	-2.31	(2)	0.43	(19)	0.40	(237)
2005	0.67***	(81)	-0.14	(38)	0.77***	(70)	0.33	(77)	0.97	(6)	-0.05	(7)			-1.00	(23)	0.16*	(197)
Panel B: Issue addressed and sponsor type																		
Union pension funds	0.35	(267)	0.04	(135)	0.84***	(92)	-0.09	(266)	9.57	(1)	0.04	(55)			0.19	(28)	0.16*	(703)
Public pension funds	1.35**	(62)	2.37*	(37)	-0.33	(10)	-2.72	(12)							0.65	(11)	1.08**	(131)
Investment funds	0.00	(26)	0.12	(6)	-6.51	(1)	-0.79	(2)	1.66	(19)					0.17	(4)	0.53	(54)
Coordinated investors	0.20	(72)	0.06	(38)			0.57	(19)	0.14	(59)							0.34	(141)
Socially responsible/religious investors	2.98	(10)	-0.22	(49)	0.99	(2)	-0.34	(47)			0.70	(2)			-0.75	(6)	0.14	(113)
Individuals	0.29	(427)	0.13	(187)	-0.31	(225)	0.33	(191)	0.46	(37)	-0.68	(11)	0.16	(35)	-0.31	(76)	0.06	(945)

This table shows percent cumulative abnormal returns in the days [-1,+1] surrounding the date that the proxy statements are mailed. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The significance of the means is tested using Boehmer, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

Table 6: Descriptive statistics of target and nontarget firms

	Targets				Nontargets				*Difference in means*	*Difference in medians*
	N	Mean	Median	St. dev.	N	Mean	Median	St. dev.		
Panel A: Financial, performance and ownership characteristics										
Assets ($ millions)	1494	46,549	10,538	129,968	9096	7,252	1,459	28,421	*39,298****	*9,079****
Sales ($ millions)	1494	15,773	7,139	14,456	9096	3,291	1,208	7,459	*12,482****	*5,931****
Debt-to-equity ratio	1494	1.45	0.91	11.20	9096	1.35	0.55	34.82	*0.11*	*0.37****
Market-to-book ratio	1494	3.02	2.29	12.17	9096	4.32	2.30	79.35	*-1.29*	*-0.01*
Prior one-year raw stock return (%)	1494	14.48	11.57	46.17	9096	20.56	13.61	72.32	*-6.08****	*-2.04****
Prior one-year abnormal stock return (%)	1494	-17.75	-18.80	46.24	9096	-11.22	-16.51	71.59	*-6.54****	*-2.29****
Prior one-year stock turnover	1494	1.37	1.04	1.13	9096	1.73	1.17	1.77	*-0.37****	*-0.13****
Institutional ownership (%)	1494	62.72	63.23	16.54	9096	63.88	65.01	20.90	*-1.16***	*-1.78****
Institutional ownership - pressure sensitive (%)	1494	13.56	12.95	5.93	9096	11.48	10.39	6.48	*2.08****	*2.56****
Institutional ownership - pressure insensitive (%)	1494	49.16	48.86	15.98	9096	52.40	52.61	20.08	*-3.24****	*-3.75****
Panel B: Governance characteristics										
Governance Index (max=24)	1494	9.91	10	2.48	9096	9.40	9	2.67	*0.51****	*1****
Entrenchment Index (max=6)	1494	2.34	2	1.31	9096	2.30	2	1.27	*0.04*	*0*
Board size	1494	11.31	11	3.01	9096	9.55	9	2.90	*1.76****	*2****
Executive directors (%)	1494	16.28	13.33	9.10	9096	20.44	16.67	11.15	*-4.16****	*-3.33****
Average age of nonexecutive directors	1494	59.93	60	2.99	9096	59.09	59.33	3.81	*0.83****	*0.67****
Separate chair and CEO (binary)	1494	0.12	0	0.32	9096	0.21	0	0.41	*-0.10****	*0****
CEO ownership (%)	1494	1.19	0.12	4.36	9096	2.45	3.58	5.96	*-1.27****	*-3.46****
Stock-based to total CEO compensation (%)	1494	45.03	48.02	28.26	9096	42.18	43.45	28.67	*2.85****	*4.57****
CEO compensation excluding option grants	1494	8,658	3,302	26,670	9096	4,117	1,620	10,307	*4,541****	*1,682****
Abnormal CEO compensation	1494	-0.09	-0.20	0.94	9096	0.01	-0.11	1.04	*-0.10****	*-0.09****
Dollar sensitivity of CEO option holdings	1494	6.56	3.19	10.66	9096	10.73	7.05	12.38	*-4.17****	*-3.86****

This table compares the characteristics of firms that are targeted and firms that are not targeted by shareholder proposals in a given year. The variables are described in Appendix A. The difference in means t-test assumes unequal variances when the test of equal variances is rejected at the 10% level. The significance of the difference in medians is based on Wilcoxon ranksum tests. *, ** and *** denote significance at the 10%, 5% and 1% level, respectively.

Table 7: Sample selection models explaining proposal probability and voting results

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel A: Selection equations										
Intercept	-7.053***	-15.04	-6.574***	-4.66	-6.607***	-4.69	-5.372***	-3.32	-6.765***	-4.78
Log of assets	0.380***	20.13	0.402***	23.62	0.401***	23.61	0.394***	22.42	0.400***	23.80
Debt-to-equity	-0.006***	-2.69	-0.031***	-2.94	-0.032***	-3.12	-0.034***	-3.16	-0.031***	-3.06
Market-to-book	0.001	0.51	0.007***	2.63	0.007**	2.31	0.005	1.03	0.007**	2.33
Prior one-year abnormal stock return	-0.123	-1.10	-0.242**	-2.01	-0.261**	-2.27	-0.256**	-1.98	-0.249**	-2.13
Prior one-year stock turnover	0.038	0.87	-0.007	-0.09	-0.025	-0.30	-0.026	-0.29	-0.022	-0.27
Institutional ownership – pressure sensitive	0.396	0.46	1.336	1.39	1.543*	1.65	0.937	0.85	1.504	1.64
Institutional ownership – pressure insensitive	0.493	0.90	0.558	0.72	0.427	0.57	1.004*	1.94	0.436	0.59
Entrenchment index			0.077	1.37	0.071	1.26	-0.020	-0.33	0.058	0.97
Board size			-0.155	-1.16	-0.154	-1.19	-0.093	-0.78	-0.134	-1.03
Board size squared			0.001	0.19	0.001	0.22	-0.001	-0.27	0.000	0.05
Executive directors			-0.087	-0.09	-0.117	-0.12	-0.828	-0.91	-0.111	-0.12
Average age of nonexecutive directors			0.006	0.34	0.006	0.36	-0.015	-0.70	0.008	0.45
Separate chair and CEO			0.228	1.06	0.211	1.00	0.184	0.86	0.229	1.08
CEO ownership			-2.900***	-2.94	-2.905***	-3.01	-3.003***	-3.02	-2.860***	-2.92
Stock-based to total CEO compensation			-0.107	-0.40	-0.080	-0.29	-0.160	-0.65	-0.127	-0.46
Abnormal CEO compensation			-0.012	-0.22	-0.010	-0.19	-0.004	-0.07	-0.017	-0.32
Dollar sensitivity of CEO option holdings			0.022***	4.33	0.023***	4.28	0.022***	3.97	0.023***	4.23

Table 7: Sample selection models explaining proposal probability and voting results (continued)

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel B: Outcome equations										
Intercept	3.739**	1.90	5.149**	2.58	26.178***	3.41	67.765***	4.57	28.429**	2.57
Times submitted	0.663**	2.56	0.581**	2.24	0.880***	3.38			0.860***	3.35
Number of proposals in proxy	-0.003	-0.01	-0.132	-0.40	0.267	1.10			0.417*	1.66
Proposal - Antitakeover	39.826***	23.23	40.408***	23.67	39.501***	22.31			39.019***	21.69
Proposal - Board	7.294***	4.47	7.317***	4.41	8.040***	4.70			8.008***	4.61
Proposal - Voting	19.789***	10.90	20.112***	10.95	19.937***	10.88			19.957***	10.71
Proposal - Compensation	6.162***	3.69	6.216***	3.67	6.844***	3.89			6.616***	3.75
Proposal - Sale of company	3.303	1.59	3.964*	1.84	2.342	1.07			2.087	0.96
Proposal - Audit	4.828**	2.00	4.729*	1.92	4.775*	1.92			4.569*	1.86
Proposal - Routine	-2.376	-1.37	-2.382	-1.30	-1.424	-0.76			-1.577	-0.85
Sponsor - Union pension fund	3.888***	3.80	3.996***	3.92	2.931***	3.07			2.576***	2.68
Sponsor - Public pension fund	9.044***	4.67	9.601***	4.92	6.666***	3.58			6.336***	3.38
Sponsor - Investment fund	10.196**	2.28	11.777***	2.69	10.411**	2.57			10.207**	2.58
Sponsor - Coordinated investors	0.352	0.26	1.260	0.94	-0.400	-0.31			-0.605	-0.47
Sponsor - Socially responsible/religious	-0.986	-0.65	-0.836	-0.55	-1.027	-0.65			-1.209	-0.74
Log of assets					-1.095***	-3.58	-2.356***	-4.46	-0.758**	-2.09
Debt-to-equity					-0.023	-0.55	-0.066**	-2.32	-0.029	-0.70
Market-to-book					0.027	1.16	0.087*	1.90	0.029	1.26
Prior one-year abnormal stock return					-0.003	-0.00	-0.322	-0.27	-0.121	-0.14
Prior one-year stock turnover					1.298***	2.63	1.154*	1.70	1.130**	2.23
Institutional ownership – pressure sensitive					-8.828	-1.04	25.177*	1.69	-6.254	-0.80
Institutional ownership – pressure insensitive					12.564***	3.70	19.405***	3.82	11.102***	3.32
Entrenchment index							2.953***	5.73	0.908**	2.53
Board size							-0.014	-0.02	-1.108**	-2.17
Board size squared							0.002	0.09	0.037**	2.17
Executive directors							-1.234	-0.20	1.403	0.31
Average age of nonexecutive directors							-0.033	-0.16	-0.078	-0.50
Separate chair and CEO							-3.704**	-2.15	-0.572	-0.45
CEO ownership							-7.653	-0.61	-2.925	-0.27
Stock-based to total CEO compensation							1.776	0.95	1.805	1.28
Abnormal CEO compensation							-0.590	-1.08	0.281	0.71
Dollar sensitivity of CEO option holdings							-0.082	-1.31	0.026	0.51

Table 7: Sample selection models explaining proposal probability and voting results (continued)

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	11485	11485	11485	11485	11485
Number of uncensored observations	2338	2338	2338	2338	2338
Number of proposals	1960	1960	1960	1960	1960
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald χ^2	2206.1***	2434.1***	2735.8***	362.3***	3007.5***
Log-likelihood	918.8	953.1	1027.9	166.5	1039.4
ρ	0.711***	-0.288	-0.380***	-0.859***	-0.332***

In the selection equations of Panel A, the dependent variable is a dummy equal to one if a shareholder proposal has been submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the percentage of votes FOR shareholder proposals. The firm-level independent variables included in both Panels A and B are described in Appendix A. The proposal-level independent variables in Panel B are dummies equal to one if the variable description holds and zero otherwise. Log of assets is the natural logarithm of the book value of assets. Wald χ^2 tests the joint significance of the outcome and selection equation pairs. $\rho = 0$ tests the independence of the outcome and selection equation pairs using a Wald χ^2 test. T-statistics in parentheses use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

Table 8: Sample selection models explaining proposal probability and cumulative abnormal returns

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel A: Selection equations										
Intercept	-8.838***	-11.76	0.037	0.01	-0.002	0.00	-0.169	-0.07	-0.144	-0.06
Log of assets	0.548***	12.96	0.598***	16.38	0.595***	16.62	0.592***	16.45	0.592***	16.56
Debt-to-equity	-0.004***	-3.81	-0.030***	-5.03	-0.030***	-5.18	-0.030***	-5.39	-0.030***	-5.33
Market-to-book	0.000	0.23	0.004*	1.82	0.003*	1.67	0.003	1.57	0.003	1.59
Prior one-year abnormal stock return	-0.200**	-2.12	-0.274**	-2.13	-0.238*	-1.88	-0.220*	-1.73	-0.224*	-1.77
Prior one-year stock turnover	0.095***	6.88	0.044	1.22	0.041	1.11	0.045	1.29	0.044	1.25
Institutional ownership - pressure sensitive	-3.137***	-2.95	-1.895*	-1.73	-1.904*	-1.69	-1.784	-1.63	-1.815*	-1.65
Institutional ownership - pressure insensitive	1.361***	4.07	1.035***	3.61	1.019***	3.67	0.994***	3.73	0.998***	3.71
Entrenchment index			0.264***	2.74	0.259***	2.71	0.247***	2.65	0.248***	2.65
Board size			-0.246***	-3.31	-0.244***	-3.34	-0.236***	-3.19	-0.237***	-3.21
Board size squared			0.007***	3.30	0.007***	3.29	0.007***	3.13	0.007***	3.15
Executive directors			-0.096	-0.10	-0.061	-0.06	0.007	0.01	0.010	0.01
Average age of nonexecutive directors			-0.139***	-3.29	-0.137***	-3.27	-0.134***	-3.23	-0.135***	-3.23
Separate chair and CEO			0.102	0.38	0.104	0.39	0.097	0.36	0.098	0.36
CEO ownership			-1.115*	-1.78	-1.061*	-1.81	-0.971*	-1.84	-0.979*	-1.84
Stock-based to total CEO compensation			-1.111***	-3.38	-1.090***	-3.39	-1.038***	-3.40	-1.041***	-3.39
Abnormal CEO compensation			0.107*	1.64	0.103	1.56	0.095	1.38	0.096	1.41
Dollar sensitivity of CEO option holdings			0.022***	5.78	0.022***	5.83	0.022***	5.88	0.022***	5.87

Table 8: Sample selection models explaining proposal probability and cumulative abnormal returns (continued)

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel B: Outcome equations										
Intercept	-0.586	-1.53	-0.588	-1.53	-5.137***	-2.92	-0.023	-0.75	-3.481	-1.16
Targeted in previous year	-0.347	-1.43	-0.351	-1.45	-0.397	-1.62			-0.382	-1.57
Number of proposals in proxy	-0.236	-1.37	-0.236	-1.37	-0.310*	-1.83			-0.299*	-1.78
Proposal - Antitakeover	0.614**	2.06	0.615**	2.06	0.675**	2.27			0.565*	1.89
Proposal - Board	0.500	1.46	0.500	1.47	0.465	1.37			0.509	1.48
Proposal - Voting	0.082	0.26	0.085	0.27	0.081	0.26			0.161	0.53
Proposal - Compensation	0.147	0.48	0.149	0.49	0.104	0.34			0.088	0.29
Proposal - Sale of company	0.407	0.66	0.406	0.66	0.580	0.93			0.531	0.84
Proposal - Audit	-0.019	-0.04	-0.016	-0.03	0.028	0.06			0.106	0.20
Proposal - Routine	0.121	0.21	0.120	0.21	-0.009	-0.02			0.015	0.02
Sponsor - Union pension fund	0.254	1.12	0.253	1.12	0.238	1.04			0.232	1.02
Sponsor - Public pension fund	1.002*	1.70	1.007*	1.71	1.119*	1.88			1.094*	1.82
Sponsor - Investment fund	-0.060	-0.08	-0.047	-0.07	0.131	0.19			0.077	0.11
Sponsor - Coordinated investors	0.069	0.18	0.074	0.19	0.197	0.52			0.197	0.51
Sponsor - Socially responsible/religious	0.015	0.03	0.014	0.03	0.009	0.02			0.177	0.38
Log of assets					0.184**	2.32	0.170*	1.91	0.244***	2.59
Debt-to-equity					0.008	1.62	0.005	1.25	0.006	1.31
Market-to-book					0.006	0.97	0.006	1.24	0.006	1.15
Prior one-year abnormal stock return					-0.456	-1.59	-0.483*	-1.70	-0.485*	-1.68
Prior one-year stock turnover					0.252**	2.26	0.258**	2.37	0.242**	2.12
Institutional ownership - pressure sensitive					1.292	0.66	1.715	0.93	1.644	0.88
Institutional ownership - pressure insensitive					-0.202	-0.28	-0.194	-0.26	-0.388	-0.51
Entrenchment index							0.309***	3.91	0.252***	3.17
Board size							-0.244	-1.39	-0.232	-1.28
Board size squared							0.010	1.45	0.009	1.31
Executive directors							-0.523	-0.45	-1.170	-1.00
Average age of nonexecutive directors							-0.021	-0.50	-0.029	-0.66
Separate chair and CEO							0.108	0.35	0.088	0.28
CEO ownership							-2.253	-0.91	-2.264	-0.90
Stock-based to total CEO compensation							-0.694	-1.62	-0.739*	-1.74
Abnormal CEO compensation							0.081	0.67	0.096	0.80
Dollar sensitivity of CEO option holdings							0.006	0.49	0.005	0.43

Table 8: Sample selection models explaining proposal probability and cumulative abnormal returns (continued)

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	10551	10551	10551	10551	10551
Number of uncensored observations	1451	1451	1451	1451	1451
Number of firms	1961	1961	1961	1961	1961
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald χ^2	41.56***	41.74***	59.94***	71.76***	87.94***
Log-likelihood	2628.7	2637.6	2646.3	2645.7	2654.9
ρ	-0.095	-0.220**	-0.170*	-0.091	-0.104

In the selection equations of Panel A, the dependent variable is a dummy equal to one if a shareholder proposal has been submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the cumulative abnormal return in the days [-1;+1] surrounding the date that the proxy statement is mailed. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The firm-level independent variables included in both Panels A and B are described in Appendix A. The proposal-level independent variables in Panel B are dummies equal to one if the variable description holds and zero otherwise. Log of assets is the natural logarithm of the book value of assets. Wald χ^2 tests the joint significance of the outcome and selection equation pairs. $\rho = 0$ tests the independence of the outcome and selection equation pairs using a Wald χ^2 test. T-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

Appendix A: Variable descriptions

Variable name	Description and source
Panel A: Financial, performance and ownership characteristics	
Assets ($ millions)	The book value of total assets. Source: *Compustat*.
Sales ($ millions)	The value of total net sales. Source: *Compustat*.
Debt-to-equity ratio	Total debt divided by the book value of equity. Source: *Compustat*.
Market-to-book ratio	Market capitalization of equity divided by the book value of equity. Source: *Compustat*.
Prior one-year raw stock return	The dividend-adjusted stock price return in the year up to two months before the proxy mailing date. Source: *CRSP*.
Prior one-year abnormal stock return	The dividend-adjusted stock price return minus the return on the CRSP equal-weighted index, in the year up to two months before the proxy mailing date. Source: *CRSP*.
Prior one-year stock turnover	The total number of shares sold during the year up to two months before the proxy mailing date, divided by the total number of shares outstanding. Source: *CRSP*.
Institutional ownership	The number of shares held by institutions, divided by the total number of shares outstanding. Source: *Thomson Financial CDA/Spectrum.*
Institutional ownership – pressure sensitive	The number of shares held by banks and insurance companies, divided by the total number of shares outstanding. Source: *Thomson Financial CDA/Spectrum*.
Institutional ownership – pressure insensitive	The number of shares held by private and public pension and labor union funds, investment funds and their managers, independent investment advisors, and university endowments, divided by the total number of shares outstanding. Source: *Thomson Financial CDA/Spectrum.*
Panel B: Governance characteristics	
Governance Index (Max=24)	Gompers, Ishii and Metrick (2003) index of 24 governance-related charter and bylaw provisions. Source: *RiskMetrics*.
Entrenchment Index (Max=6)	Bebchuk, Cohen and Ferrell (2009) index of six governance-related charter and bylaw provisions. Source: *RiskMetrics*.
Board size	The number of directors on the board of directors. Source: *RiskMetrics*.
Executive directors	The number of directors employed by the firm, divided by total board size. Source: *RiskMetrics*.
Average age of nonexecutive directors	The average age of directors not employed by the firm. Source: *RiskMetrics*.
Separate chair and CEO	A dummy variable equal to one if the chairman of the board and the CEO are different persons, and 0 otherwise. Source: *RiskMetrics*.
CEO ownership	The number of shares held by the CEO divided by total shares outstanding. Source: *ExecuComp*.
Stock-based to total CEO compensation	The value of stock options and restricted stock grants, divided by total CEO compensation for the individual year. Source: *ExecuComp*.
CEO compensation excluding stock option grants ($000s)	Total CEO compensation for the individual year, including salary, bonus, restricted stock, long-term incentive payouts, and other compensation. Source: *ExecuComp*.
Abnormal CEO compensation	The natural logarithm of the residual from an annual regression, which regresses the log of total CEO compensation excluding stock option grants on the book value of assets and industry dummies. Source: *ExecuComp*.
Dollar sensitivity of CEO option holdings	The dollar value change in the CEO's total option holdings for a $1,000 change in the firm's market value of equity. Source: *ExecuComp*.

Appendix B: Economic effects

	Proposal probability		Voting results		Cumulative abnormal return	
	Exp. Sign	*Economic effect*	*Exp. Sign*	*Economic effect*	*Exp. Sign*	*Economic effect*
Panel A: Proposal characteristics						
Times submitted			+	0.860***		
Targeted in previous year					-	nss
Number of proposals in proxy			+	0.417*	+	-0.299*
Proposal - Antitakeover			+	39.019***	+	0.565*
Proposal - Board				8.008***		nss
Proposal - Voting				19.957***		nss
Proposal - Compensation				6.616***		nss
Proposal - Sale of company				nss		nss
Proposal - Audit				4.569*		nss
Proposal - Routine				nss		nss
Sponsor - Union pension fund			+	2.576***	+	nss
Sponsor - Public pension fund			+	6.336***	+	1.094*
Sponsor - Investment fund			+	10.207**	+	nss
Sponsor - Coordinated investors				nss		nss
Sponsor - Socially responsible/religious				nss		nss
Panel B: Financial, performance and ownership characteristics						
Log of assets	+	0.592***	-	-0.758**	+	0.244***
Debt-to-equity	-	-0.030***	-	nss	-	nss
Market-to-book		nss		nss	-	nss
Prior one-year abnormal stock return	-	-0.224*	-	nss	-	-0.485*
Prior one-year stock turnover	+	nss	+	1.130**	+	0.242**
Institutional ownership – pressure sensitive		-1.815*		nss		nss
Institutional ownership – pressure insensitive	+	0.998***	+	11.102***	+	nss
Panel C: Governance characteristics						
Entrenchment index	+	0.248***	+	0.908**	+	0.252***
Board size	-	-0.237***	-	-1.108**	-	nss
Board size squared	+	0.007***	+	0.037**	+	nss
Executive directors	+	nss	+	nss	+	nss
Average age of nonexecutive directors	-	-0.135***	-	nss	-	nss
Separate chair and CEO	-	nss	-	nss	-	nss
CEO ownership	-	-0.979*	-	nss	-	nss
Stock-based to total CEO compensation	-	-1.041***	-	nss	-	-0.739*
Abnormal CEO compensation	+	nss	+	nss	+	nss
Dollar sensitivity of CEO option holdings	+	0.022***	+	nss	+	nss

This table summarizes the economic effects of proposal and firm characteristics on the voting outcomes as shown in Model 5 of Table 7, and on the probability of proposal submissions and the cumulative abnormal returns as shown in Model 5 of Tables 8. The variables are described in Appendix A. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.